

Role of Private Asset Class Consultants

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Background

- Investment Committee raised questions regarding multiple roles of CalPERS investment consultants for the private asset classes
 - Board Consultant
 - Independent Fiduciary for Real Estate Investment Decisions
 - Special Projects for Staff
- December Policy Subcommittee discussion on the role of private asset class investment consultants
- December Policy Subcommittee agreed to a conceptual model for private asset class consultant roles but had some follow-up questions:
 - Adopt multi-dimensional design incorporating annual \$ thresholds (in addition to single transaction \$ thresholds) for consultant opinions?
 - Consider whether any consultant opinion is necessary for smaller transactions?
 - Require Board Consultant to perform manager reviews and annual program reviews?
 - Establish guiding principle – can Board consultants manage system assets?
 - Clarify opinion standard.

Today's Agenda

- Agree to a standard role for Board Consultants for the private asset classes
 - Current roles differ for Real Estate, Private Equity, and Infrastructure
- Agree to a standard for use of investment consultants in investment decisions for private asset classes
- Next step is to develop policy language to bring to April Policy Subcommittee with decisions reached today

Proposed Board Consultant Role: Private Asset Classes

Strategy & Policy Analysis	<ul style="list-style-type: none"> • Review and opine on investment policies • Review and opine on strategic and annual plans • Provide periodic analysis of market developments and market conditions to the Investment Committee
Performance Analysis & Monitoring	<ul style="list-style-type: none"> • Prepare investment performance reports and portfolio risk analysis • Provide guidance on performance measurement methodologies • Review and opine on appropriateness of asset class benchmarks • Validate accuracy of incentive fee calculations (Real Estate¹)
Independent Advisor to the Investment Committee	<ul style="list-style-type: none"> • Provide opinion to the Investment Committee on investments above staff's delegation of authority • Provide opinion that all investment transactions comply with policy and delegation of authority¹ • Perform annual review of the program and opine on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing • Provide independent advice to the Investment Committee on all aspects of the program and its implementation
<p><u>Guiding Principles:</u></p> <ul style="list-style-type: none"> • Board Consultants cannot manage assets for the Fund. • Board Consultants cannot perform work for Staff on special projects or provide opinions to staff regarding specific investment transactions. 	

Proposed Consultant/Staff Framework – Investment Decisions



¹ All new investments and aggregated commitment of additional capital to a single investment within a one-year timeframe.

² On all investment decisions Board Consultant provides memo stating the transaction complies with policy and delegated authority.

³ All Board Consultant work would be covered by a retainer with ability to negotiate exceptions.

Opinion Standard

- Consultants would provide a prudent person opinion on the merits of a transaction following a fiduciary standard of care.
 - Adopt commonly used legal terms and concepts.
 - Discontinue use of “independent fiduciary recommendation” in Real Estate as meaning of term was not clearly defined.
- Prudent Person Opinion¹ – An opinion from a consultant or external resource subject to the Fiduciary Standard of Care that the proposed investment is a prudent investment consistent with Article XVI, Section 17(c) of the California Constitution and Section 20151(c) of the California Government Code, i.e., made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- Fiduciary Standard of Care¹ - The consultant shall discharge its duties with respect to this system solely in the interest of the participants and beneficiaries by acting with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims.

Next Steps

- Revise policies and delegations regarding the use of private asset class consultants for Policy Subcommittee approval
 - Policy presentation at April Policy Subcommittee
 - Formal approval at May Investment Committee
- Transition Period for Real Estate's use of Board Consultants
 - Board Consultant would start no new projects for staff after June 30, 2011
 - Board Consultant would complete all existing projects for staff by December 31, 2011
- Amend existing LOE's to standardize role of private asset class Board Consultants
- Release Real Estate Primary Board Consultant RFP - early FY 11-12
- Consider applicability of these concepts to the public asset classes